John Williams'
Shadow Government Statistics
Analysis Behind and Beyond Government Economic Reporting

COMMENTARY NUMBER 603
January Durable Goods Orders and Home Sales

February 27, 2014

Durable Goods Orders in Downturn

Statistically Indistinguishable from January 2013, January 2014 "5-1/2 Year High" in New-Home Sales Still Was 65% Below Pre-Recession Peak

At 1-1/2 Year Low, Existing-Home Sales Fell Sharply— Month-to-Month and Year-to-Year—37% Below Pre-Recession High

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PLEASE NOTE: The next regular Commentary *is scheduled for tomorrow, Friday, February 28th, covering the second estimate, first revision of fourth-quarter 2013 GDP. Where the U.S. Treasury has delayed further the GAAP-based 2013 financial statements for the U.S. government until sometime later today, February 27th, at least an initial ShadowStats analysis of the statements also should be published with tomorrow's missive.*

Best wishes to all — John Williams

OPENING COMMENTS AND EXECUTIVE SUMMARY

Latest Economic Reporting Remained Consistent With Renewed Economic Downturn. This morning's (February 27th) *Commentary* focuses on the January reporting for new orders for durable goods and for new- and existing-home sales activity. Only the new-home sales data showed positive monthly results. Yet, with that series at 65% below its pre-recession highs, and with headline monthly and annual gains well shy of approaching statistical significance, the best that can be said for the series is that it is highly unstable and unreliable. While the other two series also have stability and reliability issues, they also recently have been consistent with prior reporting, with other recent, related reporting and with underlying economic fundamentals. They are showing patterns of renewed downturn consistent with the onset of what likely will be viewed formally as a new or double-dip recession. More will follow in tomorrow's (February 28th) *Commentary No. 604*, on the GDP revision.

January 2014 Durable Goods—Weaker Orders Suggestive of New Downtrend. Although the headline 0.97% decline in January 2014 durable goods orders was more than accounted for by a decline in the extremely volatile orders for commercial aircraft, headline January reporting was in the context of a fair downward revision to December's new orders, with the result that January orders were down by 6.25% for the two months from November. Of that decline, 3.07% still was net of a drop in those aircraft orders, which usually dominate the aggregate durable goods growth numbers. Accordingly the two-month drop in total orders tended to be based broadly across the economy.

Aggregate January reporting and revisions not only reflected some corrective pullback in orders, but also some corrective downside revisions to the reporting of prior activity. Accordingly, the ongoing longer-term pattern of stagnation has remained in place for the series—particularly when viewed net of inflation—despite any short-term blips, and a recent slight uptrend in the pattern of stagnation now may have turned to a downtrend. The growth patterns in this series remain of a nature that commonly precedes or coincides with a recession or deepening business downturn.

Nominal (Not-Adjusted-for-Inflation) January 2014 Reporting. The seasonally-adjusted nominal level of January 2014 new orders for durable goods fell by 0.97% for the month, following a revised 5.34% decline in December, and a revised November gain of 2.75%. Before the prior-period revisions, total new orders in January fell by 1.89%.

The reporting of contractions and surges in commercial aircraft orders is seen in an irregularly-repeating process throughout the year and often dominates headline durable goods orders. These extremely volatile aircraft orders are booked well into the future and are indicative more of longer-term, rather than shorter-term prospects for manufacturing activity.

In January, nondefense (or commercial) aircraft orders fell by 20.20% month-to-month, versus a revised 22.32% decline in December, and an unrevised 21.08% gain in November. Net of prior-period revisions, January commercial-aircraft orders fell by 24.88%. Net of the aircraft numbers, total new orders rose by 0.59% in January, versus a revised decline of 3.63% in December, and a revised 1.21% gain in November.

What these numbers show over the last eight months is no meaningful change (down by 2.47%)—effectively stagnation—in new orders for durable goods, net of commercial-aircraft order activity and before any consideration for the effects of inflation. The eight-month change is down by 3.14% net of PPI-related inflation.

Aircraft-order volatility also has impacted year-to-year change in seasonally-adjusted, total new orders. Total orders in January 2014 were up by 4.61% year-to-year, up by 1.17% ex-commercial aircraft; versus a revised aggregate annual decline of 0.84% in December 2013, down by a revised 3.16% ex-commercial aircraft; versus a revised November aggregate annual gain of 10.14%, up by a revised 5.64% ex-commercial aircraft.

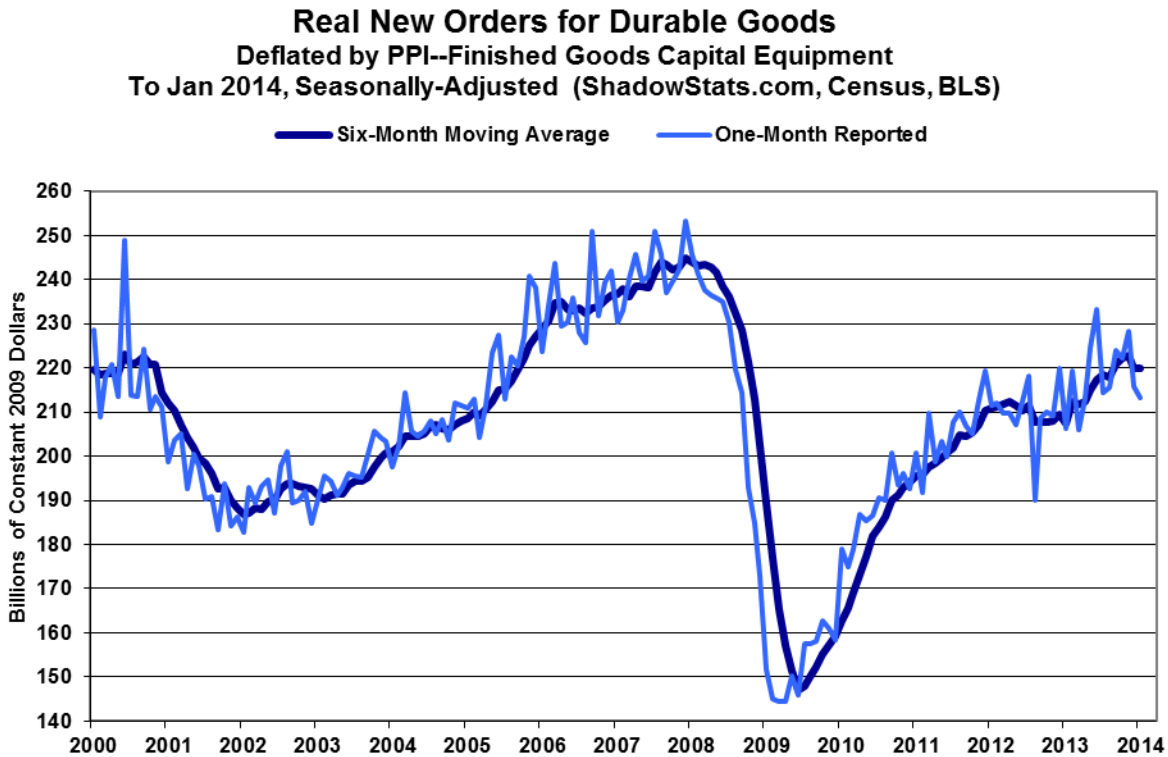
Further affected by aircraft-order activity were the seasonally-adjusted new orders for nondefense capital goods, which fell by 3.89% month-to-month in January 2014, were up by 0.41% ex-commercial aircraft; versus a revised aggregate decline of 6.52% in December, down by a revised 1.22% ex-commercial aircraft; versus a revised 8.24% gain in November, up by a revised 4.52% ex-commercial aircraft.

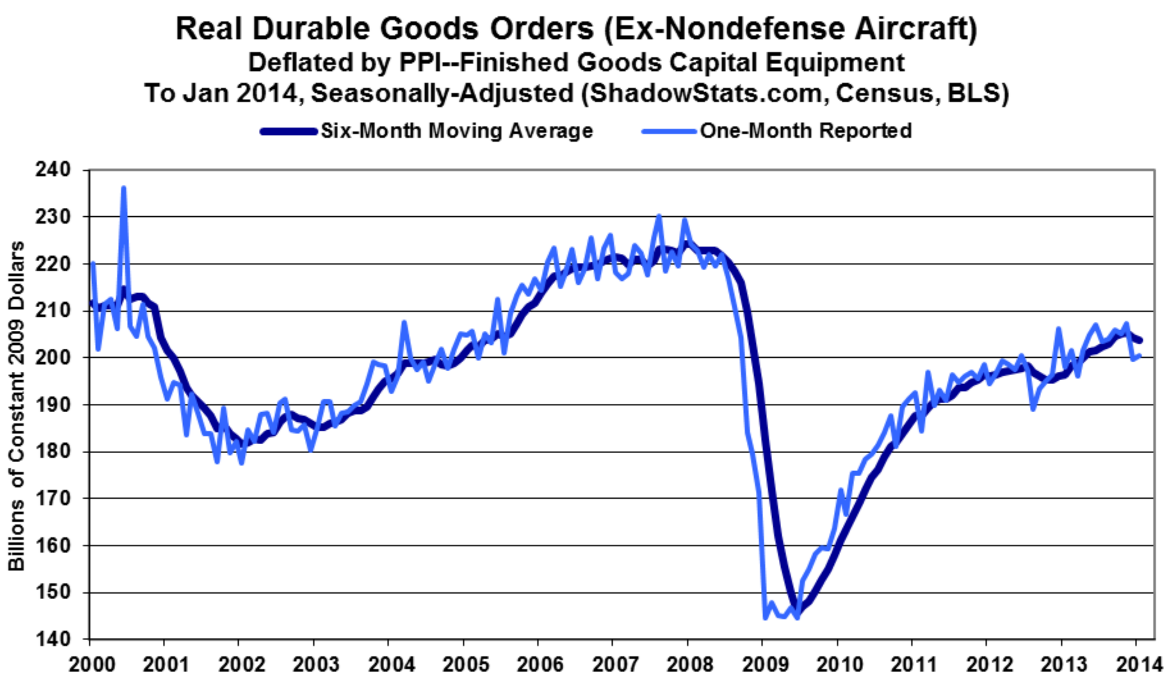
Real (Inflation-Adjusted) Durable Goods Orders—January 2014. ShadowStats still is in the process of developing a new inflation measure for deflating the PPI. With the complete revamping of the PPI series this month (see *Commentary No. 601* and *Commentary No. 591*), the previously-used PPI finished goods, capital equipment measure disappeared. The closest new measure appears to be final goods machinery and equipment, and it was used here to estimate the relevant January inflation, reflecting a seasonally-adjusted 0.2% monthly inflation rate for January, an annual inflation rate of 1.2%. A new inflation series should be in place for the next durable goods reporting.

Adjusted for that inflation, and as reflected in the accompanying graphs, real month-to-month aggregate orders fell by 1.16% in January, versus a revised decline of 5.45% in December, versus a revised 2.68% gain in November. Ex-commercial aircraft, orders rose for the month by 0.39%, following a revised 3.75% decline in December, and rose by a revised 1.15% in November. Real year-to-year aggregate orders rose by 3.32% in January, following a revised 1.86% decline in December, versus a revised 9.07% gain in November, and, ex-commercial aircraft, they rose by 1.17% in January, following a revised 3.16% decline in December, and a revised gain of 5.64% gain in November.

Graphs of Inflation-Adjusted and Smoothed Durable Goods Orders. As usually shown and discussed in the *Commentaries* covering new orders for durable goods, the following two graphs plot the new orders for durable goods, adjusted for inflation. These graphs show monthly as well as a six-month moving average of the activity level. The first graph shows the aggregate new orders series. The second series is net of the unstable commercial-aircraft order sector, and, accordingly, it is somewhat smoother than the first graph.

In terms of inflation-adjusted activity, both of these series have shown a slowing uptrend and flattening-out in the last two-to-three years—with a dip and upside bouncing into 2013, and renewed downturn in recent reporting. Broadly, there has been a recent general pattern of stagnation or bottom-bouncing evident in the orders—clearly not the booming recovery that is seen in official GDP reporting. The real (inflation-adjusted) level of orders in January 2014 remained at or below both the pre-2001 and pre-2007 recession highs. The pattern of recent stagnation in the inflation-adjusted series also is one that commonly precedes or is coincident with a recession.


Real New Orders for Durable Goods
Deflated by PPI--Finished Goods Capital Equipment
To Jan 2014, Seasonally-Adjusted (ShadowStats.com, Census, BLS)
Six-Month Moving Average
One-Month Reported
Billions of Constant 2009 Dollars
260
250
240
230
220
210
200
190
180
170
160
150
140
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014


Real Durable Goods Orders (Ex-Nondefense Aircraft)
Deflated by PPI--Finished Goods Capital Equipment
To Jan 2014, Seasonally-Adjusted (ShadowStats.com, Census, BLS)
Six-Month Moving Average
One-Month Reported
Billions of Constant 2009 Dollars
240
230
220
210
200
190
180
170
160
150
140
2000
2001
2002
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2014

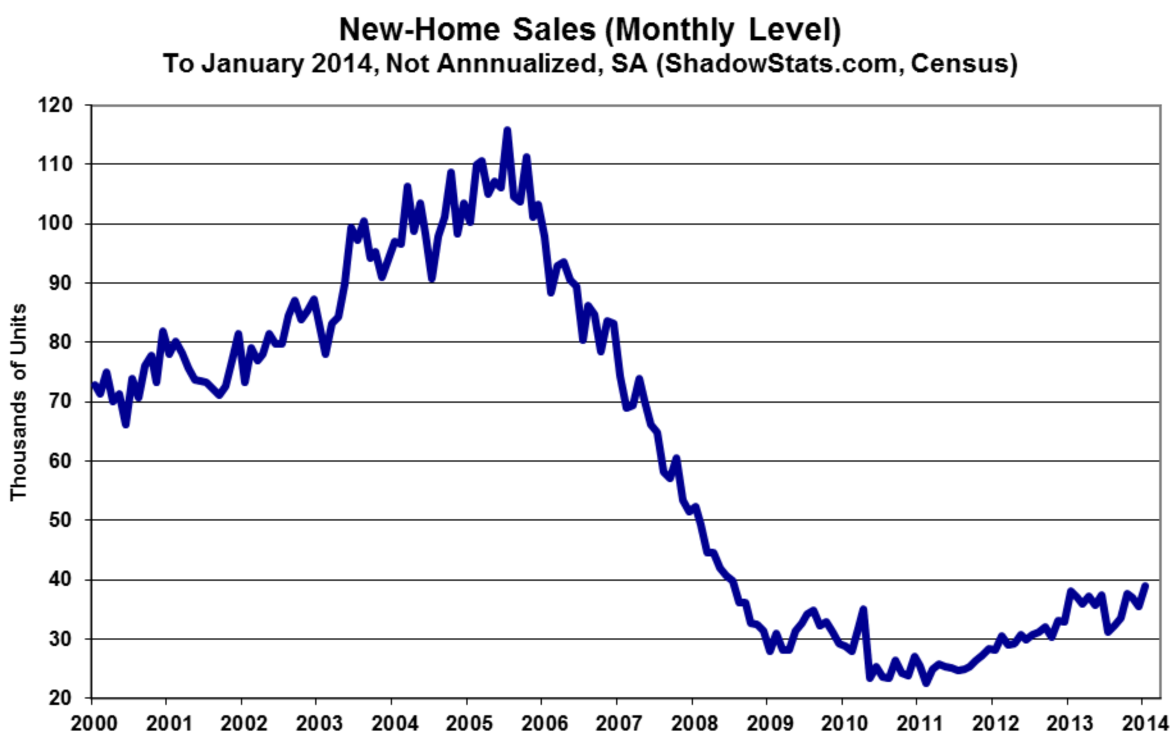
New-Home Sales—January 2014—Continued Unstable Monthly Reporting. Neither the headline 9.6% monthly gain nor the 2.2% annual gain in January new-home sales was close to being statistically-significant. Separately, where the popular press put out headlines of January home sales at a "5-1/2 Year High," the January 2014 headline number was not meaningfully different from the level of January 2013, and it still was down 65.0% from the pre-recession peak activity, seen in June 2005.

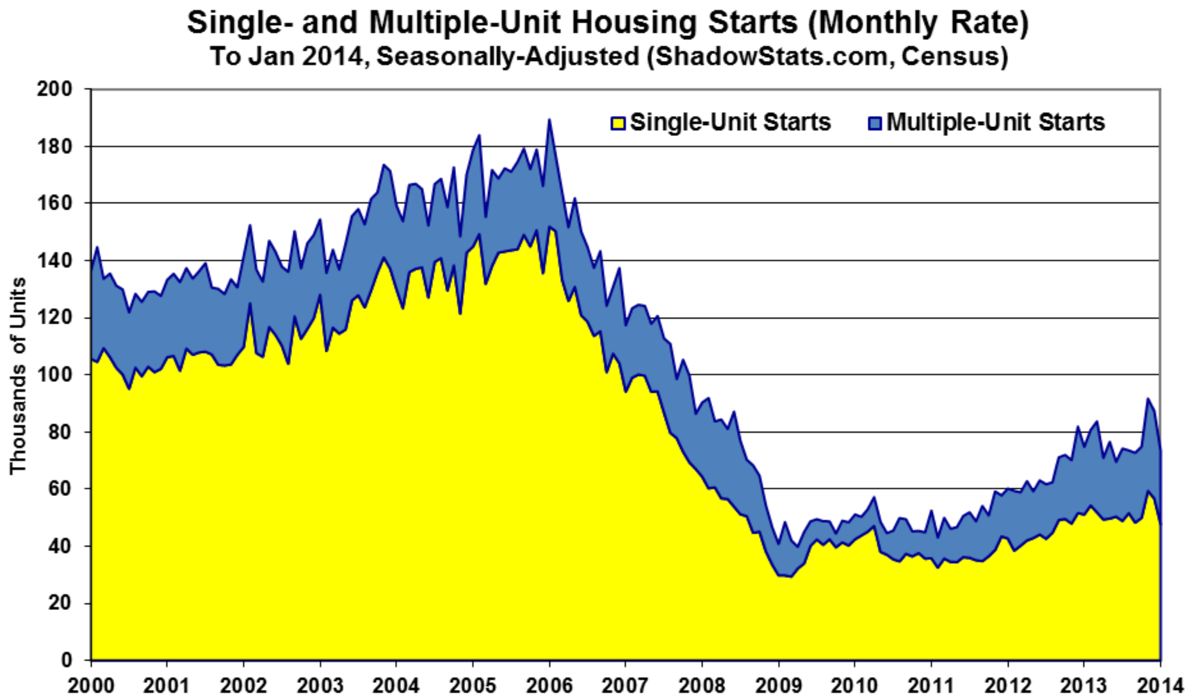
The statistically-insignificant 9.6% headline gain in January 2014 was in the context of an unusual reshuffling of fourth-quarter activity. While December 2013 new-home sales revised higher, November and October activity revised lower. As a result, the fourth-quarter activity, in aggregate, virtually was unchanged on both a seasonally-adjusted and unadjusted basis. The best that can be said for these numbers is that they remain highly unstable.

As discussed later in these *Opening Comments*, there has been no underlying improvement in fundamental consumer liquidity conditions, and most underlying economic numbers are showing a renewed economic downturn. There is no basis here for an imminent recovery in the housing market.

January New-Home Sales Reflected a Return to Normal Instability. Headline new-home sales (counted based on contract signings) rose by a statistically-insignificant 9.6%, following a revised 3.8% decline in December, and a revised 1.7% decline in November. Before prior-period revisions, January sales rose by a still-statistically-insignificant 13.0% for the month.

Year-to-year, January 2014 sales rose by a statistically-insignificant 2.2%, following a revised 7.8% annual gain in December, and an unrevised year-to-year increase of 11.8% in November. Again, the numbers here are unstable and not reliable.





New-Home Sales Graph. The regular monthly graph of new-home sales activity is the first of the two graphs preceding, along with the second graph of January single- and multiple-unit housing starts (from *Commentary No. 601*) and a third graph of existing-home sales follows, for comparison purposes.

Existing-Home Sales—January 2014)—Dropped 5.1% Both on a Monthly and Annual Basis. In the context of annual revisions to seasonal adjustments back through 2011, which shifted seasonally-adjusted growth from the second-half to the first-half of each year, the new seasonal-factors likely gave January 2014 sales more of boost than would have been seen otherwise with the prior seasonals.

Nonetheless, headline January 2014 sales fell by 5.1% from December 2013, as well as by 5.1% from January 2013, to a 1-1/2 year low. Where these sales reflected actual closings on homes, and where the pattern of decline was seen across all regions, the sharp downturn likely reflected minimal impact from the unseasonably-bad weather in some areas.

The year-to-year decline in January 2014 sales was the third such decline in a row. The level of January 2014 existing-home sales was 36.5% below the June 2005, pre-recession peak in the series.

Again, as discussed in the next section, there has been no underlying improvement in consumer liquidity conditions, and most economic fundamentals are showing a renewed economic downturn. There is no economic basis here for an imminent recovery in the housing market.

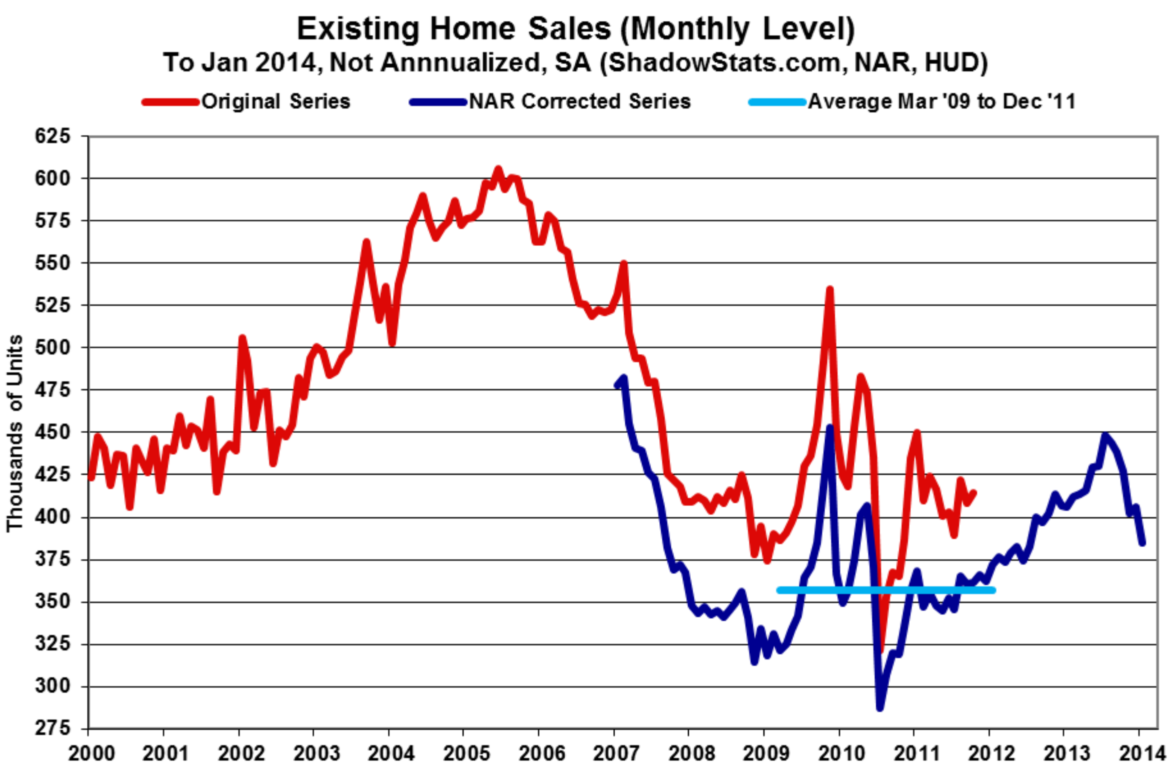
Headline Reporting. Existing-home sales (counted based on actual closings), showed a seasonally-adjusted 5.1% month-to-month drop, versus an unrevised 1.0% gain in December, and a revised 5.8%

headline monthly decline in November. On a year-to-year basis, January 2014 annual sales declined by 5.1%, versus a revised 0.2% decline in December and a revised 2.6% decline in November.

The issuing National Association of Realtors (NAR) estimated the portion of total sales in "distressed" properties rose to 15% (11% foreclosures, 4% short sales) in January 2014, versus 14% (10% foreclosures, 4% short sales) in December 2013.

Reflecting ongoing lending problems, related banking-industry and consumer solvency issues, and the continuing influx of speculative investment money into the existing housing market, the NAR also estimated that all-cash sales in January 2014 rose to 33%, up from 32% in December 2013, and from 28% in January 2013.

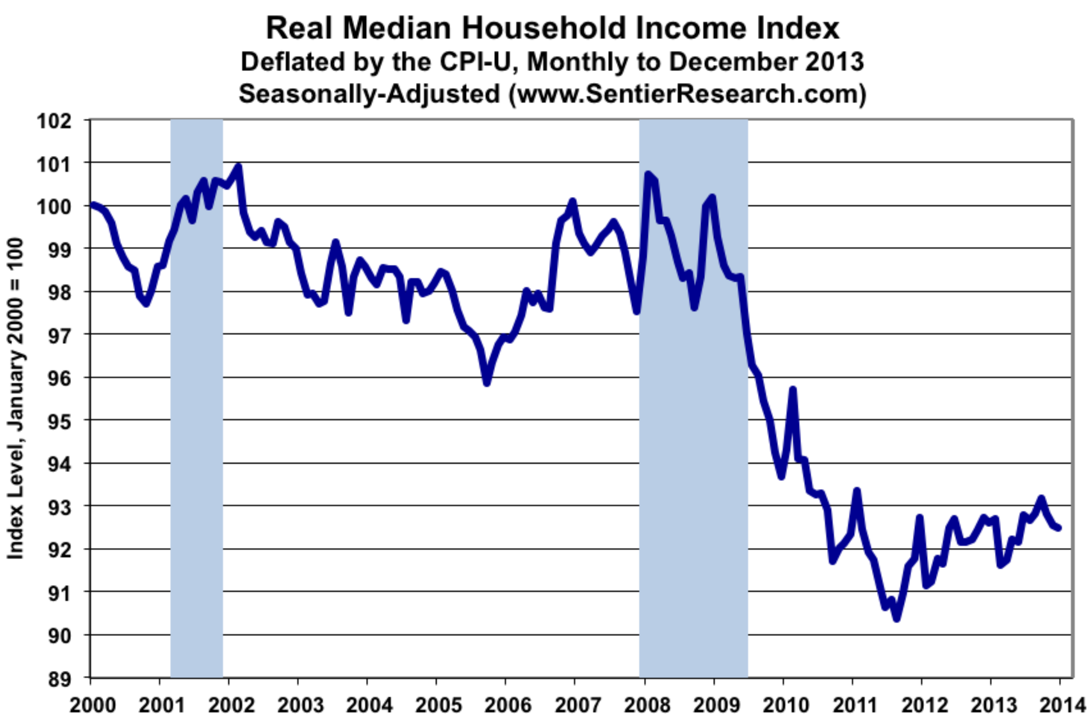
Existing-Home Sales Graph. Smoothed for irregular distortions, the series has remained statistically consistent with a period of broad stagnation, turning into a faltering downtrend, as suggested by the following graph. Included for comparison purposes are January new-home sales activity and single- and multiple-unit housing starts (from *Commentary No. 601*) in the two graphs preceding.

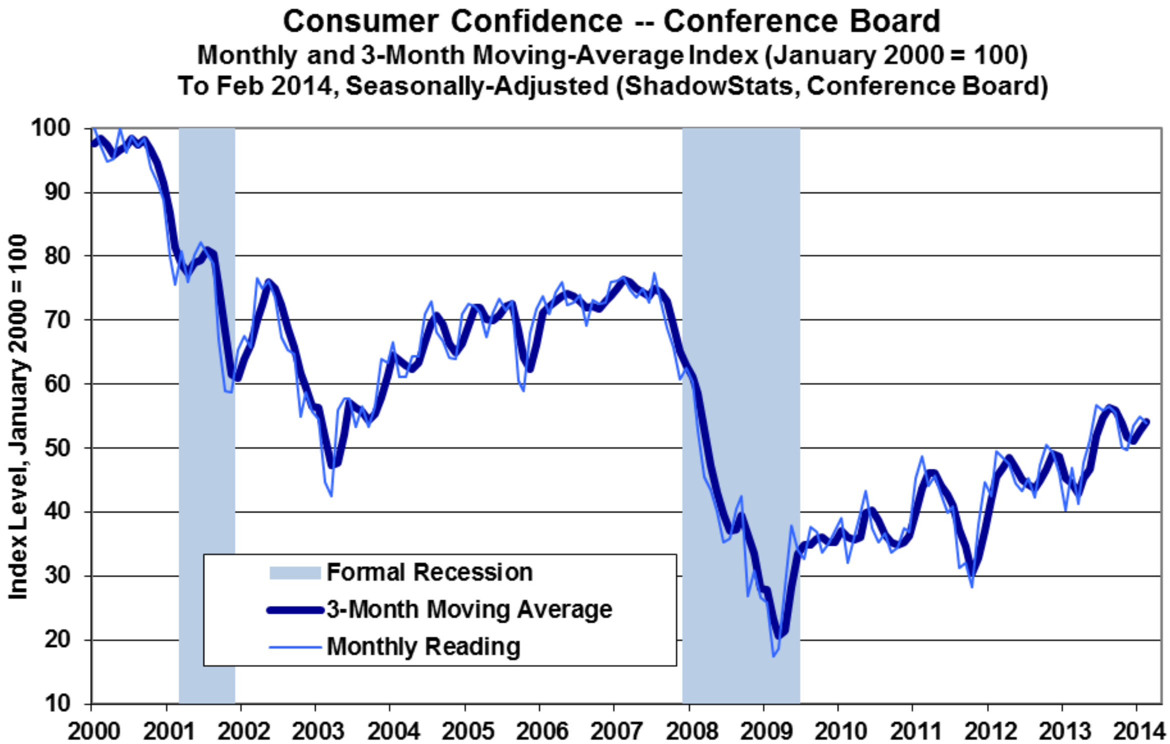


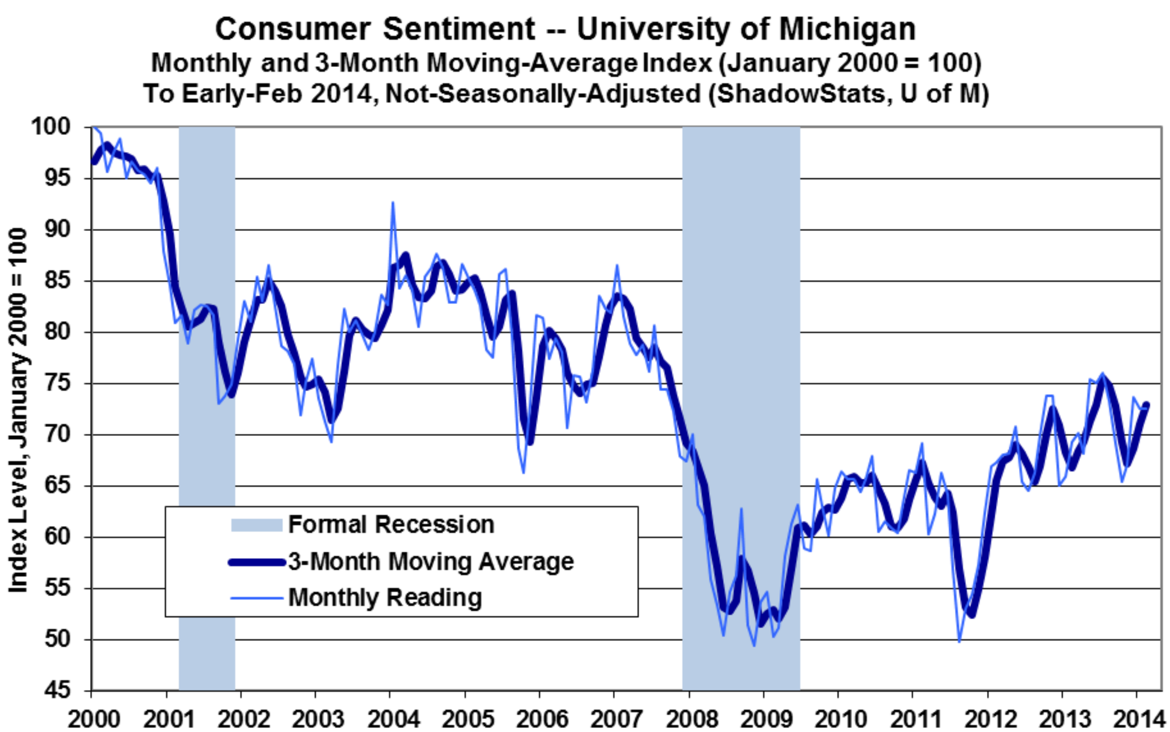
Underlying Liquidity Fundamentals Continue to Show No Relief for the Housing Market. The problem for the housing market, along with much of the broad economy, ties directly to the severe, structural liquidity problems impairing consumer spending and consumption. There have been no developments in underlying economic fundamentals, consumer conditions or otherwise, that would suggest a pending housing-industry turnaround or a rebound in broad business activity. Underlying reality favors a renewed downturn in general economic activity, as increasingly shown in the retail sales and housing series.

Reemphasizing points in *Commentary No. 599* on these liquidity issues are the three graphs that follow. The first graph is a repeated from the referenced *Commentary*, reflecting real (inflation-adjusted) median household income as of December 2013, as published by www.SentierResearch.com, based on monthly surveying by the Census Bureau. Median income has continued to hold near the cycle trough of the series. As the broad economy purportedly rebounded from June 2009, household income instead plunged into 2011, and it generally has been stagnant at a low level of activity, ever since.

Along with the updated consumer confidence and sentiment, seen in the second and third graphs, household income has shown a broad pattern of plunge-and-stagnation in the current economic crisis, as opposed to the GDP's purported pattern of plunge, recovery and expansion. Those issues will be reviewed in tomorrow's *Commentary No. 604* of February 28th, following the release of the "second" estimate of fourth-quarter 2013 GDP (see the *Week Ahead* section).




Consumer Confidence -- Conference Board
Monthly and 3-Month Moving-Average Index (January 2000 = 100)
To Feb 2014, Seasonally-Adjusted (ShadowStats, Conference Board)
Index Level, January 2000 = 100
100
90
80
70
60
50
40
30
20
10
Formal Recession
3-Month Moving Average
Monthly Reading
2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014


Consumer Sentiment -- University of Michigan
Monthly and 3-Month Moving-Average Index (January 2000 = 100)
To Early-Feb 2014, Not-Seasonally-Adjusted (ShadowStats, U of M)
Index Level, January 2000 = 100
100
95
90
85
80
75
70
65
60
55
50
45
Formal Recession
3-Month Moving Average
Monthly Reading
2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014

The Conference Board's February 2014 reading of consumer confidence showed a small, monthly decline and prior-period downward revision, with the level of confidence remaining deep in historical recession territory, as also seen in the early-February estimate of consumer sentiment, well shy of levels—perhaps 60% higher—that tend to signal the type of booming economic recovery currently reported in the GDP, let alone any economic recovery at all.

[For greater detail on January 2014 new orders for durable goods and existing- and new-home sales, see the **Reporting Detail** ***section.]***

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HYPERINFLATION WATCH

Hyperinflation Outlook. With the *First Installment* of *Hyperinflation 2014—The End Game Begins* published on January 7th, a new *Hyperinflation Summary* for this section will be added in conjunction with the publication of the *Second Installment*. The second and final installment will cover historical and prospective economic activity, as well as possible protective and preventative actions and reactions at both a personal and federal level, versus the unfolding circumstance. It will be published shortly, including the analysis of the much-delayed publication of the 2013 GAAP-based financial statements of the United States government, which are due for release later today (February 27th). The new material in the *Second Installment* will supplement and update the basic material already available to ShadowStats readers in Chapters 4, 5 and 9 of *Hyperinflation 2012*.

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REPORTING DETAIL

NEW ORDERS FOR DURABLE GOODS (January 2014)

Decline in January Durable Goods Orders Was in Context of December Downside Revision. The headline 0.97% decline in January 2014 durable goods orders was more than accounted for by a decline in the extremely volatile orders for commercial aircraft. The headline January reporting, however, was in the context of a good-sized downward revision to December's new orders, with the result that January orders were down by 6.25% for the two months from November. Of that decline, 3.07% still was net of declining commercial aircraft orders, which usually dominate the aggregate durable goods growth numbers. Accordingly the two-month drop in durable goods orders tended to be based broadly across the economy.

Aggregate January reporting and revisions not only reflected some corrective pullback in orders, but also some corrective downside revisions to the reporting of prior activity. Accordingly, the ongoing longer-term pattern of stagnation has remained in place for the series—particularly when viewed net of inflation—despite any short-term blips, and a recent slight uptrend in the pattern of stagnation now may have turned to a downtrend. The growth patterns in this series remain of a nature that commonly precedes or coincides with a recession or deepening business downturn.

Nominal (Not-Adjusted-for-Inflation) January 2014 Reporting. The Census Bureau reported today, February 27th, that the regularly-volatile, seasonally-adjusted nominal level of January 2014 new orders for durable goods fell by 0.97% for the month, following a revised 5.34% decline (previously down by 4.30%) in December, and a revised November gain of 2.75% (previously 2.60%, initially 3.50%). Before the prior-period revisions, total new orders in January fell by 1.89%.

The reporting of contractions and surges in commercial aircraft orders is seen in an irregularly-repeating process throughout the year and often dominate headline durable goods orders. These extremely volatile aircraft orders are booked well into the future and are indicative more of longer-term, rather than shorter-term prospects for manufacturing activity.

In January, nondefense (or commercial) aircraft orders fell by 20.20% month-to-month, versus a revised 22.32% (previously 17.51%) decline in December, and an unrevised 21.08% (initially 21.76%) gain in November. Net of prior-period revisions, January commercial-aircraft orders fell by 24.88%. Net of the aircraft numbers, total new orders rose by 0.59% in January, versus a revised decline of 3.63% (previously 2.98%) in December, and a revised 1.21% (previously 1.05%, initially 1.97%) gain in November.

What these numbers show over the last eight months or so is no meaningful change (down by 2.47%)—effectively stagnation—in new orders for durable goods, net of commercial-aircraft order activity and before any consideration for the effects of inflation. The eight-month change is down by 3.14% net of PPI-related inflation.

Aircraft-order volatility also has impacted year-to-year change in seasonally-adjusted, total new orders. Total orders in January 2014 were up by 4.61% year-to-year, up by 1.17% ex-commercial aircraft; versus a revised aggregate annual decline of 0.84% (previously a gain of 0.10%) in December 2013, down by a revised 3.16% (previously 1.65%) ex-commercial aircraft; versus a revised November aggregate annual gain of 10.14% (previously 9.98%, initially 10.90%), up by a revised 5.64% (previously 6.50%, initially 7.42%) ex-commercial aircraft.

Further affected by aircraft-order activity were the seasonally-adjusted new orders for nondefense capital goods, which fell by 3.89% month-to-month in January 2014, were up by 0.41% ex-commercial aircraft; versus a revised aggregate decline of 6.52% (previously 4.97%) in December, down by a revised 1.22% (previously 0.75%) ex-commercial aircraft; versus a revised 8.24% (previously 7.84%, initially 9.38%) gain in November, up by a revised 4.52% (previously 4.01%, initially 5.79%) ex-commercial aircraft.

Caution: Current durable goods reporting remains subject to many of the same sampling and concurrent-seasonal-adjustment problems that are seen with retail sales, payroll and unemployment reporting. Unusual seasonal-factor volatility raises issues as to the significance of reported seasonally-adjusted monthly and annual changes. While those issues are brought into balance, temporarily, with an annual benchmark revision to durable goods orders (usually in May), subsequent reporting makes all historical reporting prior to November 2013 inconsistent with the current headline numbers.

Real (Inflation-Adjusted) Durable Goods Orders—January 2014. ShadowStats still is in the process of developing a new inflation measure for deflating the PPI. With the complete revamping of the PPI series this month (see *Commentary No. 601* and *Commentary No. 591*), the previously-used PPI finished goods, capital equipment measure disappeared. The closest new measure appears to be final goods machinery and equipment, and it was used here to estimate the relevant January inflation, reflecting a seasonally-adjusted 0.2% monthly inflation rate for the January, an annual inflation rate of 1.2%. A new inflation series should be in place for the next durable goods reporting.

Adjusted for that inflation, and as reflected in the graphs of the *Opening Comments* section, real month-to-month aggregate orders fell by 1.16% in January, versus a revised decline of 5.45% (previously 4.42%) in December, versus a revised 2.68% (previously 2.54%, initially 3.44%) gain in November. Ex-commercial aircraft, orders rose for the month by 0.39%, following a revised 3.75% (previously 3.10%) decline in December, and rose by a revised 1.15% (previously 0.99%, initially 1.91%) in November. Real year-to-year aggregate orders rose by 3.32% in January, following a revised 1.86% (previously 0.93%) decline in December, versus a revised 9.07% (previously 8.91%, initially 9.83%) gain in November, and, ex-commercial aircraft, they rose by 1.17% in January, following a revised 3.16% (previously by 2.66%) decline in December, and a revised gain of 5.64% (previously 5.47%) gain in November.

Graphs of Inflation-Adjusted and Smoothed Durable Goods Orders. The usual two inflation-adjusted graphs are found in the *Opening Comments* section. Those graphs show the monthly as well as a six-month moving-average activity for both the aggregate new orders series and the series net of the unstable commercial-aircraft order sector. The moving-average levels in both series have been holding in a pattern of near-stagnation, with some recent upside trend having turned to the downside, recently.

Real levels of the January 2014 orders remained at or below both the pre-2001 and pre-2007 recession highs. The pattern of recent stagnation in the inflation-adjusted series also is one that commonly precedes or is coincident with a recession.

NEW-HOME SALES (January 2014).

Continued Unstable Monthly Reporting. The statistically-insignificant 9.6% headline gain in January 2014 was in the context of an unusual reshuffling of fourth-quarter activity. While December 2013 new-home sales revised higher, November and October activity revised lower. As a result, the fourth-quarter activity, in aggregate, virtually was unchanged on both a seasonally-adjusted and unadjusted basis. The best than can be said for these numbers is that they remain highly unstable.

Neither the headline 9.6% monthly gain nor the 2.2% annual gain was close to being statistically-significant. Separately, where the popular press put out headlines of January home sales at a 5-1/2 year high, that headline number was not meaningfully different from the level of January 2013, and it still was down 65.0% from the pre-recession peak activity, seen in June 2005.

As discussed in the *Opening Comments*, there has been no underlying improvement in fundamental consumer liquidity conditions, and most underlying economic numbers are showing a renewed economic downturn. There is no basis here for an imminent recovery in the housing market.

January New-Home Sales Reflected a Return to Normal Instability. As reported yesterday (February 26th) by the Census Bureau, January 2014 headline new-home sales (counted based on contract signings) rose by a statistically-insignificant 9.6% +/- 20.9% (all confidence intervals are at the 95% level), following a revised 3.8% (previously 7.0%) decline in December, and a revised 1.7% (previously 3.9%, initially 2.1%) decline in November. Before prior-period revisions, January sales rose by a still-statistically-insignificant 13.0% for the month.

Year-to-year, January 2014 sales rose by a statistically-insignificant 2.2% +/- 23.6%; following a revised 7.8% (previously 4.5%) annual gain in December, and an unrevised year-to-year increase of 11.8% (initially 16.6%) in November. Again, the numbers here are unstable and not reliable.

New-Home Sales Graph. The regular monthly graph of new-home sales activity is included in the *Opening Comments* section, along with graphs of the latest existing-home sales and housing starts. Even with the recent unstable numbers, new-home sales activity appears to be stagnant, at best.

EXISTING-HOME SALES (January 2014)

January 2014 Existing-Home Sales Dropped 5.1% on Both a Monthly and Annual Basis. In the context of annual revisions to seasonal adjustments back through 2011, which shifted seasonally-adjusted growth from the second-half to the first-half of each year, the new seasonal-factors likely gave January 2014 sales more of boost than would have been seen with the prior seasonals.

Nonetheless, headline January 2014 sales fell by 5.1% from December 2013, as well as by 5.1% from January 2013, to a 1-1/2 year low. Where these sales reflect actual closings on homes, and where the pattern of decline was seen across all regions, the sharp downturn likely reflected minimal impact from the unseasonably-bad weather in some areas.

The year-to-year decline in January 2014 sales was the third such decline in a row. The level of January 2014 existing-home sales was 36.5% below the June 2005, pre-recession peak in the series.

Again, as discussed in the *Opening Comments*, there has been no underlying improvement in consumer liquidity conditions, and most economic fundamentals are showing a renewed economic downturn. There is no economic basis here for an imminent recovery in the housing market.

Headline Reporting. The February 21st release of January 2014 existing-home sales (counted based on actual closings, National Association of Realtors [NAR]) showed a seasonally-adjusted 5.1% month-to-month drop, versus an unrevised 1.0% gain in December, and a revised 5.8% (previously 5.9%, initially 4.3%) headline monthly decline in November.

On a year-to-year basis, January 2014 annual sales declined by 5.1%, versus a revised 0.2% (previously 0.6%) decline in December and a revised 2.6% (previously 2.8%, initially 1.2%) decline in November.

Smoothed for irregular distortions, the series remained statistically consistent with a period of broad stagnation, turning into a faltering downtrend, as suggested by the graph in the *Opening Comments* section. Again, the data quality remains questionable.

The NAR estimated the portion of total sales in “distressed” properties rose to 15% (11% foreclosures, 4% short sales) in January 2014, versus 14% (10% foreclosures, 4% short sales) in December 2013.

Reflecting ongoing lending problems, related banking-industry and consumer solvency issues, and the continuing influx of speculative investment money into the existing housing market, the NAR also estimated that all-cash sales in January 2014 rose to 33%, up from 32% in December 2013, and from 28% in January 2013.

Existing-Home Sales Graph. The regular monthly graph of existing-home sales activity is included in the *Opening Comments* section, along with graphs of the latest new-home sales and housing starts. Existing home sales appear to be in a downtrend.

WEEK AHEAD

Much Weaker-Economic and Stronger-Inflation Reporting Likely in the Months and Year Ahead. Although shifting to the downside, market expectations generally still appear to be overly optimistic as to the economic outlook, based on data that likely were puffed-up in the process of going through the data-gathering and reporting distortions of the October shutdown to the federal government, in addition to the regular seasonal-adjustment issues. Expectations should continue to soften, though, with an increasing number of corrective revisions and disappointing headline economic activity. The initial stages of that process have been seen in the recent reporting of December and January payroll, retail sales, housing and industrial production data, and in the December trade-balance detail.

That corrective circumstance and underlying weak economic fundamentals remain highly suggestive of deteriorating business activity. Accordingly, weaker-than-consensus economic reporting should become the general trend until such time as an unfolding "new" recession receives general recognition.

Stronger inflation reporting remains likely. Upside pressure on oil-related prices should reflect intensifying impact from a weakening U.S. dollar in the currency markets, and from ongoing political instabilities in the Middle East. The dollar faces pummeling from continuing QE3, the ongoing U.S. fiscal-crisis debacle, a weakening U.S. economy and deteriorating U.S. political conditions (see *Hyperinflation 2014—The End Game Begins*). Particularly in tandem with a weakened dollar, reporting in the year ahead generally should reflect much higher-than-expected inflation.

A Note on Reporting-Quality Issues and Systemic Reporting Biases. Significant reporting-quality problems remain with most major economic series. Ongoing headline reporting issues are tied largely to systemic distortions of seasonal adjustments. The data instabilities were induced by the still-evolving economic turmoil of the last seven-to-eight years, which has been without precedent in the post-World War II era of modern economic reporting. These impaired reporting methodologies provide particularly unstable headline economic results, where concurrent seasonal adjustments are used (as with retail sales, durable goods orders, employment and unemployment data), and they have thrown into question the statistical-significance of the headline month-to-month reporting for many popular economic series.

PENDING RELEASES:

Gross Domestic Product—GDP (Fourth-Quarter 2014, Second Estimate, First Revision). The Bureau of Economic Analysis (BEA) will publish the second estimate of fourth-quarter 2013 GDP tomorrow, Friday, February 28th. Market expectations appear to be for a downside revision to the initial 3.2% headline estimate, by an order of magnitude somewhat shy of a full-percentage point. The official aggregate data still will lack enough meaning, though, for the first estimates of gross domestic product (GDP) and gross national product (GNP) to be published. The year-end and annual versions of those numbers usually are released with the third estimate of GDP.

Underlying reality would tend to favor an even greater downside revision, disappointing the already negative market expectations. The most recent reporting of the trade deficit, retail sales, industrial production and housing all suggest a significant downside adjustment to this heavily-overstated, annualized quarterly growth rate.